

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Swartz Creek	County Genesee
Audit Date 6/30/04	Opinion Date 9/22/04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 12/9/04

Annual Financial Statements

**City of Swartz Creek
Genesee County, Michigan**

For the Fiscal Year Ended June 30, 2004

with Independent Auditors' Report

**City of Swartz Creek, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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**City of Swartz Creek, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2004**

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Introductory Section

**City of Swartz Creek, Michigan
List of Elected and Appointed Officials**

City Council

Richard Abrams
Jason Christie
Donald Adams
C. David Hurt
David Plumb
Curtis Porath
Michael Shumaker

Mayor
Mayor Pro-Tem
Councilperson
Councilperson
Councilperson
Councilperson
Councilperson

Other Officers and Officials

Paul Bueche
Mary Jo Clark
Tom Svrcek
Rick Clolinger
Tom O'Brien
Deanna Korth
Juanita Aguilar

City Manager
City Clerk/Finance Director
Director of Public Services
Police Chief
Zoning Administrator
Deputy Treasurer/Deputy City Clerk
Treasurer

Financial Section

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan as of June 30, 2004, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note IB, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan at June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 8 and the information in the required supplemental information section on pages 39 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKR Dupuis & Ripden

Certified Public Accountants
Flint Office

September 22, 2004

Management's Discussion and Analysis

City of Swartz Creek Management's Discussion and Analysis

The City of Swartz Creek is implementing the new Governmental Accounting Standards Board Statement No.34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the City of Swartz Creek is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require the City of Swartz Creek to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The City of Swartz Creek will present a comparative analysis of government-wide data in future years when prior-year information is available. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

Financial Highlights

- The City's Total Net Assets are \$13.4 million.
- During the year, the City's expenses were \$108,344 less than the \$3,427,716 generated in taxes, other revenues and other financing sources for governmental programs
- General fund revenues exceeded expenditures by \$7,462.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non major governmental funds and agency funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - * The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - * Proprietary fund statements offer short- and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.
 - * Fiduciary fund statements provide information about the financial relationships – like the summer and winter taxes and the payroll funds – in which the City acts as an agent that administers the fund for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non major governmental funds and agency funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 (below) summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 - Major Features of the City of Swartz Creek's
Government-wide and Fund Financial Statements**

<u>Type of Statements</u>	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City's component unit	The activities of the City that are not proprietary or fiduciary, such as police, garbage and streets	Activities the City operates similar to private businesses: the water and sewer system	Instances in which the City is the trustee or agent for someone else's resources. The City has several agency funds.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	No revenues or expenses are recognized in the City's agency funds.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, which is the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities – Most of the City's basic services are included here, such as the police, public works, recycling and garbage removal, parks, streets and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units – The City includes one other entity in its report – the Swartz Creek Area Senior Citizens, Inc. Although legally separate, this "component unit" is important because the City is financially accountable for the tax levy received by the separate not-for-profit entity.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and state revenues.

The City has three kinds of funds:

- Governmental funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities. The City's Motor Pool Fund is the only internal service fund.
- Fiduciary funds – The City is the trustee, or fiduciary, for assets held on the behalf of others. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Analysis of the City as a Whole

Changes in Net assets

The City's combined net assets are \$13,419,657. In comparison, last year net assets were \$13,215,140, an increase of \$204,517.

Governmental Activities

The City's total governmental fund revenues, excluding other financing sources, were \$3.4 million this year. Property taxes were \$1.2 million or 36% of the total revenues. Property tax increases are controlled by various State laws. Grants and State revenue sharing made up \$1.6 million or 47% of the total revenue. The remaining 17% of governmental fund revenues are comprised mostly of Charges for Services and Interest revenue.

Business-Type Activities

Operating revenues of the City's business-type activities increased from the prior year of \$1.55 million to the current year total of \$1.64 million. The major factors for the increase of revenues were an increase in water rates charged to our customers. Operating expenses decreased from \$1.67 million to \$1.59 million. The major factors contributing to the operating expense decrease was the cost of water purchased from the City of Detroit thru Genesee County and employee contract pay increases.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance surplus of \$2.9 million, \$220,000 less than last year. Included in this year's total change in fund balance, is a surplus of \$7,462 in the City's general fund.

Capital Assets

At the end of 2004, the City had invested \$7.63 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. Swartz Creek is in compliance at June 30, 2004.

Long-term Debt

At year-end the City had \$920,000 in bonds and notes outstanding for governmental activities and \$112,554 in bonds and notes outstanding for business type activities. Annual debt service requirements for business type activities debt will decline significantly over the next four years, from \$28,974 in 2005 to \$0 in fiscal 2009.

Limitations on Debt

The State limits the amount of general obligation debt the City can issue to 10% of the assessed value of all taxable property within the City's corporate limits. Our legal debt limit is \$21.6 million. The City has an available unused portion of \$20.7 million.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Swartz Creek, 8083 Civic Drive, Swartz Creek, MI 48473.

Basic Financial Statements

Government-wide Financial Statements

**City of Swartz Creek
Statement of Net Assets
June 30, 2004**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Senior Citizens Authority
Assets				
Cash and equivalents	\$ 2,224,577	\$ 1,706,428	\$ 3,931,005	\$ 36,920
Investments	894,060	607,119	1,501,179	144,831
Accounts receivable	30,156	400,486	430,642	270
Due from other governments	215,214	-	215,214	5,315
Internal balances	(75,613)	75,613	-	-
Inventory	6,066	10,725	16,791	-
Prepaid items	17,147	-	17,147	1,701
Capital assets (net of accumulated depreciation)	3,866,902	4,825,674	8,692,576	17,238
Total assets	7,178,509	7,626,045	14,804,554	206,275
Liabilities				
Accounts payable	75,861	7,065	82,926	8,326
Accrued liabilities	58	33	91	3,440
Due to other governments	-	181,747	181,747	-
Deposits	-	500	500	-
Retainer payable	10,913	-	10,913	-
Noncurrent liabilities:				
Due within one year	25,000	28,974	53,974	-
Due in more than one year	971,166	83,580	1,054,746	-
Total liabilities	1,082,998	301,899	1,384,897	11,766
Net assets				
Invested in capital assets, net of related debt	2,921,902	4,713,120	7,635,022	17,238
Restricted for:				
Streets	1,083,532	-	1,083,532	-
Garbage collection	448,137	-	448,137	-
Public safety	86,520	-	86,520	-
Debt Service	10,271	-	10,271	-
Capital improvements	105,581	-	105,581	144,831
Unrestricted	1,439,568	2,611,026	4,050,594	32,440
Total net assets	\$ 6,095,511	\$ 7,324,146	\$13,419,657	\$ 194,509

See notes to financial statements.

**City of Swartz Creek
Statement of Activities
For the Year Ended June 30, 2004**

Functions\Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 45,574	\$ -	\$ -	\$ -
General government	782,723	83,455	-	-
Public safety	988,273	148,768	-	-
Public works	1,290,737	37,250	349,628	754,978
Recreation and cultural	156,066	10,665	17,885	-
Interest on long-term debt	55,999	-	-	-
Total governmental activities	3,319,372	280,138	367,513	754,978
Business-type activities:				
Water	869,705	995,007	-	13,555
Sewer	721,699	651,731	-	15,000
Total business-type activities	1,591,404	1,646,738	-	28,555
Total primary government	\$ 4,910,776	\$ 1,926,876	\$ 367,513	\$ 783,533
Component units:				
Senior Citizens Authority	\$ 197,625	\$ 54,290	\$ 55,821	\$ 30,000
General revenues:				
Property taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Unrestricted earnings				
Gain (loss) on disposal of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Senior Citizens Authority
\$ (45,574)	\$ -	\$ (45,574)	\$ -
(699,268)	-	(699,268)	-
(839,505)	-	(839,505)	-
(148,881)	-	(148,881)	-
(127,516)	-	(127,516)	-
(55,999)	-	(55,999)	-
(1,916,743)	-	(1,916,743)	-
-	138,857	138,857	-
-	(54,968)	(54,968)	-
-	83,889	83,889	-
(1,916,743)	83,889	(1,832,854)	-
-	-	-	(57,514)
1,235,343	-	1,235,343	91,883
478,446	-	478,446	-
45,658	26,083	71,741	1,720
221,841	-	221,841	-
30,000	-	30,000	-
13,799	(13,799)	-	-
2,025,087	12,284	2,037,371	93,603
108,344	96,173	204,517	36,089
5,987,167	7,227,973	13,215,140	158,420
\$ 6,095,511	\$ 7,324,146	\$ 13,419,657	\$ 194,509

Fund Financial Statements

**City of Swartz Creek
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
Assets			
Cash and cash equivalents	\$ 817,324	\$ 535,344	\$ 85,939
Investments	182,426	366,276	53,637
Accounts receivable	15,434	-	156
Due from other governmental units	156,754	44,414	14,046
Prepaid items	17,147	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 1,189,085	\$ 946,034	\$ 153,778
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	\$ 39,706	\$ 15,134	\$ 233
Accrued and other liabilities	58	-	-
Due to other funds	-	-	-
Contractors' retention payable	-	-	913
	<hr/>	<hr/>	<hr/>
Total liabilities	39,764	15,134	1,146
	<hr/>	<hr/>	<hr/>
Fund Balances			
Reserved for prepaid items	17,147	-	-
Unreserved, reported in:			
Designated for subsequent year's expenditures	79,054	-	-
Undesignated	1,053,120	38,972	22,612
Special revenue funds	-	891,928	130,020
Debt service funds	-	-	-
Capital project funds	-	-	-
	<hr/>	<hr/>	<hr/>
Total fund balances	1,149,321	930,900	152,632
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 1,189,085	\$ 946,034	\$ 153,778
	<hr/>	<hr/>	<hr/>

See notes to financial statements.

<u>Garbage Collection</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
\$ 364,859	\$ 174,931	\$ 1,978,397
100,429	125,716	828,484
-	9,854	25,444
-	-	215,214
-	-	17,147
<u>\$ 465,288</u>	<u>\$ 310,501</u>	<u>\$ 3,064,686</u>
\$ 17,151	\$ 55	\$ 72,279
-	-	58
-	75,613	75,613
-	10,000	10,913
<u>17,151</u>	<u>85,668</u>	<u>158,863</u>
-	-	17,147
-	-	79,054
-	-	1,114,704
448,137	28,138	1,498,223
-	10,271	10,271
-	186,424	186,424
<u>448,137</u>	<u>224,833</u>	<u>2,905,823</u>
<u>\$ 465,288</u>	<u>\$ 310,501</u>	<u>\$ 3,064,686</u>

(continued)

City of Swartz Creek
Reconciliation of the Fund Balance as Reported in the
Governmental Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2004

Total Governmental Funds Fund balance as reported in the Balance Sheet	
Governmental Funds	\$ 2,905,823
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,866,902
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(996,166)
Internal service funds are used by management to charge the costs of fleet and equipment management to individual funds. The assets and liabilities of the internal service fund, exclusive of capital assets, are included in governmental activities in the statement of net assets.	<u>318,952</u>
Net Assets - Governmental Activities	<u><u>\$ 6,095,511</u></u>

See notes to financial statements.

City of Swartz Creek
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
Revenues			
Taxes	\$ 979,994	\$ -	\$ -
Licenses and permits	68,104	-	-
Intergovernmental:			
Federal	60,439	657,083	-
State	481,214	266,983	82,645
Local	-	53,353	-
Charges for services	90,550	8,663	-
Fines and forfeits	49,139	-	-
Interest	22,855	9,105	1,730
Other	185,740	1,200	14,725
Total revenues	<u>1,938,035</u>	<u>996,387</u>	<u>99,100</u>
Expenditures			
Current:			
Legislative	44,808	-	-
General government	535,154	-	-
Public safety	1,037,646	-	-
Public works	118,209	868,239	203,016
Recreation and cultural	138,407	-	-
Employee benefits	15,944	-	-
Capital outlay	-	-	-
Debt service:			
Principal payments	-	-	-
Interest and paying agent fees	-	-	-
Total expenditures	<u>1,890,168</u>	<u>868,239</u>	<u>203,016</u>
Excess (deficiency) of revenues over expenditures	<u>47,867</u>	<u>128,148</u>	<u>(103,916)</u>
Other financing sources (uses)			
Operating transfers in	-	-	31,411
Operating transfers out	(40,405)	(31,411)	-
Total other financing sources (uses)	<u>(40,405)</u>	<u>(31,411)</u>	<u>31,411</u>
Net change in fund balances	7,462	96,737	(72,505)
Fund balance - beginning of year	1,141,859	834,163	225,137
Fund balance - end of year	<u>\$ 1,149,321</u>	<u>\$ 930,900</u>	<u>\$ 152,632</u>

See notes to financial statements.

<u>Garbage Collection</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
\$ 321,313	\$ 2,303	\$ 1,303,610
-	-	68,104
-	-	717,522
-	-	830,842
-	-	53,353
-	-	99,213
22	-	49,161
4,379	4,718	42,787
-	1,988	203,653
325,714	9,009	3,368,245
-	-	44,808
-	-	535,154
-	3,017	1,040,663
292,960	-	1,482,424
-	-	138,407
-	-	15,944
-	201,230	201,230
-	87,514	87,514
-	55,998	55,998
292,960	347,759	3,602,142
32,754	(338,750)	(233,897)
-	54,204	85,615
-	-	(71,816)
-	54,204	13,799
32,754	(284,546)	(220,098)
415,383	509,379	3,125,921
\$ 448,137	\$ 224,833	\$ 2,905,823

**City of Swartz Creek
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities (page 11)
are different because:

Net change in fund balances - total governmental funds (page 16)	\$ (220,098)
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	261,934
--	---------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	87,514
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Expenses recorded on the statement of change in net assets for the accrual of compensated absences do not consumer current financial resources of the funds and therefore are not reported as expenditures in the governmental funds.	(2,266)
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The activities of the motor pool internal service fund are considered part of governmental activities on the staetment of changes in net assets but are not reported in the governmental funds. The motor pool internal service fund had a new loss of \$18,740 for the year ended June 30, 2004.	(18,740)
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	<u>\$ 108,344</u>
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See notes to financial statements.

**City of Swartz Creek
Statement of Net Assets
Proprietary Funds
June 30, 2004**

	Enterprise Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water	Sewer		
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,101,330	\$ 605,098	\$ 1,706,428	\$ 246,180
Investments	293,943	313,176	607,119	65,576
Due from other funds	75,613	-	75,613	-
Accounts receivable	218,598	181,888	400,486	4,712
Inventories	10,725	-	10,725	6,066
Total current assets	1,700,209	1,100,162	2,800,371	322,534
Property and equipment - net	2,864,735	1,960,939	4,825,674	277,059
Total assets	\$ 4,564,944	\$ 3,061,101	\$ 7,626,045	\$ 599,593
Liabilities				
Current liabilities:				
Accounts payable	\$ 2,279	\$ 4,786	\$ 7,065	\$ 3,582
Accrued and other liabilities	-	33	33	-
Deposits	500	-	500	-
Current portion of long term debt	28,974	-	28,974	-
Due to other governmental units	95,417	86,330	181,747	-
Total current liabilities	127,170	91,149	218,319	3,582
Long term debt	83,580	-	83,580	-
Net Assets				
Invested in capital assets, net of related debt	2,752,181	1,960,939	4,713,120	277,059
Unrestricted	1,602,013	1,009,013	2,611,026	318,952
Total net assets	4,354,194	2,969,952	7,324,146	596,011
Total liabilities and net assets	\$ 4,564,944	\$ 3,061,101	\$ 7,626,045	\$ 599,593

See notes to financial statements.

**City of Swartz Creek
Statement of Revenues, Expenses,
and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2004**

	<u>Enterprise Funds</u>		<u>T o t a l</u>	<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Enterprise</u>	<u>Internal Service</u>
			<u>Funds</u>	<u>Funds</u>
Operating revenues				
Charges for services	\$ 977,732	\$ 638,582	\$ 1,616,314	\$ -
Penalties	17,275	13,149	30,424	-
Equipment rental	-	-	-	181,622
Total operating revenues	995,007	651,731	1,646,738	181,622
Operating expenses				
Water operating	769,810	-	769,810	-
Meter reading and billings	25,125	13,585	38,710	-
Sewer operating	-	638,442	638,442	-
Sewer lift station operation	-	20,900	20,900	-
Motor pool operations	-	-	-	145,321
Depreciation	74,770	48,772	123,542	70,947
Total operating expenses	869,705	721,699	1,591,404	216,268
Net operating income (loss)	125,302	(69,968)	55,334	(34,646)
Nonoperating revenues				
Tap-ins	13,555	15,000	28,555	-
Interest income	17,495	8,588	26,083	15,906
Total nonoperating revenues	31,050	23,588	54,638	15,906
Net income (loss) before operating transfers	156,352	(46,380)	109,972	(18,740)
Operating transfers				
Transfers in (out)	46,938	(60,737)	(13,799)	-
Change in net assets	203,290	(107,117)	96,173	(18,740)
Net asset - beginning of year	4,150,904	3,077,069	7,227,973	614,751
Net assets- end of year	\$4,354,194	\$2,969,952	\$ 7,324,146	\$ 596,011

See notes to financial statements.

**City of Swartz Creek
Statement of Cash Flows
Proprietary Fund
For Year Ended June 30, 2004**

	<u>Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Cash flows from operating activities				
Cash receipts from customers	\$ 936,630	\$ 641,254	\$ 1,577,884	\$ 178,310
Cash payments to suppliers	(682,803)	(597,613)	(1,280,416)	(110,113)
Cash payments to employees	(99,040)	(71,168)	(170,208)	(36,217)
Net cash provided by (used in) operating activities	154,787	(27,527)	127,260	31,980
Cash flows from noncapital financing activities				
Transfers to other funds	(28,675)	(60,737)	(89,412)	-
Cash flows from capital and related financing activities				
Acquisition of capital assets	-	-	-	(81,591)
Tap in revenue	13,555	15,000	28,555	-
Net cash provided by (used in) capital and related related financing activities	13,555	15,000	28,555	(81,591)
Cash flows from investing activities				
Sale (purchase) of investments	115,448	87,310	202,758	(43,000)
Interest earned	17,495	8,588	26,083	15,906
Net cash provided by (used in) investing activities	132,943	95,898	228,841	(27,094)
Net increase (decrease) in cash and cash equivalents	272,610	22,634	295,244	(76,705)
Cash and cash equivalents - beginning of year	828,720	582,464	1,411,184	322,885
Cash and cash equivalents - end of year	<u>\$ 1,101,330</u>	<u>\$ 605,098</u>	<u>\$ 1,706,428</u>	<u>\$ 246,180</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 125,302	\$ (69,968)	\$ 55,334	\$ (34,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -				
Depreciation	74,770	48,772	123,542	70,947
Changes in operating assets and liabilities:				
Accounts receivable	(58,377)	(10,478)	(68,855)	(3,313)
Accounts payable	828	3,077	3,905	(790)
Accrued liabilities	(1,610)	(1,151)	(2,761)	(218)
Due to other governmental units	13,874	2,221	16,095	-
Net cash provided by (used in) operating activities	<u>\$ 154,787</u>	<u>\$ (27,527)</u>	<u>\$ 127,260</u>	<u>\$ 31,980</u>

Non cash disclosures:

The Water Fund acquired fixed asses of \$112,554 through the assumption of debt.

See notes to financial statements.

**City of Swartz Creek
Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2004**

Assets

Cash and cash equivalents	\$ 134,428
Delinquent taxes	<u>259,348</u>
Total assets	<u><u>\$ 393,776</u></u>

Liabilities

Accrued liabilities	\$ 69,672
Due to other governmental units	290,887
Deposits payable	<u>33,217</u>
Total liabilities	<u><u>\$ 393,776</u></u>

Notes to Basic Financial Statements

City of Swartz Creek, Michigan
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies

A. Reporting entity

The City of Swartz Creek (City) was incorporated in 1959, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems and general administrative services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Component units – In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended component units – for financial reporting purposes, City of Swartz Creek Building Authority has been reported as if it were a part of this City's operations because:

- City pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Discretely Presented component unit – The component unit column in the combined financial statements presents the financial data of the Swartz Creek Area Senior Citizens, Inc. The Swartz Creek Area Senior Citizens, Inc. is a legally separate nonprofit organization with the majority of the Board of Directors elected by the general membership. However the majority of the revenue of the organization is collected from a tax levy by the City of Swartz Creek and the building and utilities are furnished by the City. As a result, the Swartz Creek Area Senior Citizens, Inc. is considered fiscally dependent on the City.

The financial statements of the Swartz Creek Area Senior Citizens, Inc. are audited separately and may be obtained at the following address: 8095 Civic Drive, Swartz Creek, Michigan 48473.

The following organization is not part of the City of Swartz Creek and is excluded from the accompanying financial statements for the reasons stated.

Swartz Creek Area Fire Board:

- The above entity serves a community outside of the City of Swartz Creek.
- Swartz Creek Area Fire Authority is a joint venture with the Township of Clayton, financed primarily through fire run revenues from the two municipalities.

The Swartz Creek Area Fire Board has a December 31 year end. Audited financial statements of the Fire Board for the year ended December 31, 2003 is available for public inspection at the Fire Board headquarters.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

B. Government-wide and fund financial statements

During the year ended June 30, 2004, the City implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The new standard requires government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The State of Michigan has designated these funds as major governmental funds.

The Garbage Collection Fund accounts for a special property tax millage allowed to provide garbage and compost collection services.

The government reports the following major proprietary funds:

Water accounts for the operations of the water distribution system.

Sewer accounts for the operations of the sewage pumping and collection system.

Additionally, the government reports the following fund types:

Internal service – Services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund.

Agency funds accounts for assets held by the City as an agent for individuals, private organization, and other government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Cash and cash equivalents and investments

The City has classified all checking/sweep accounts as cash and cash equivalents.

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments. Investments are reported on the balance sheet at fair value.

2. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories and prepaid items

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventory consists of expendable supplies for consumption.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2004. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation for infrastructure assets acquired prior to July 1, 2003 and record those assets on the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Land improvements	20
System infrastructure	50-75
Machinery and equipment	3-20

5. Compensated absences

In accordance with contracts negotiated with the various employee groups of the City of Swartz Creek, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation pay is accrued annually in the government-wide, proprietary, and fiduciary fund financial statements.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Revenues, expenditures, and expenses

Property tax

The City's property tax is levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Note payable	\$920,000
Compensated absences	<u>76,166</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u><u>\$996,166</u></u>

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

II. Reconciliation of government-wide and fund financial statements – (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 362,159
Depreciation expense	<u>(100,225)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 261,934</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. (These funds are required to have budgets per Michigan law.)
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget was legally enacted on a total fund basis for the 2004 fiscal year, through passage of a resolution in accordance with Public Act 621 of 1978 of the State of Michigan. All budgets are enacted in accordance with generally accepted accounting principles (GAAP) except for the Major Street Fund and the Special Assessment Fund.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year end, except for certain Major Street Fund construction activity budgeted on a project length basis.
6. The original budget was amended during the year in compliance with the City Charter and applicable state law. The budget to actual expenditures in the financial statements represents the final budgeted expenditures as amended by the City.
7. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

III. Stewardship, compliance, and accountability – (continued)

B. Excess of expenditures over appropriations

The following funds incurred expenditures in excess of appropriations:

	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Final Budget</u>
Garbage Fund:			
Total expenditures	\$292,232	\$292,960	\$ 728

IV. Detailed notes on all funds

A. Deposits and investments

Deposits:

The City's deposits consist of checking and savings accounts and certificates of deposit.

At year end, the carrying amount of the City's deposits was \$1,861,401 excluding petty cash of \$1,076, and the bank balance was \$1,881,739. The bank balance included \$1,501,178 in certificates of deposit and \$17,944 in money market index accounts. Insurance coverage for deposits amounted to \$1,692,809 or 90%. \$188,930 of the bank balance was neither insured nor collateralized.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$2,224,577	\$1,706,428	\$134,428	\$4,065,433	\$ 36,920
Investments	894,060	607,119	-	1,501,179	144,831
Total	<u>\$3,118,637</u>	<u>\$2,313,547</u>	<u>\$134,428</u>	<u>\$5,566,612</u>	<u>\$181,751</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking and savings accounts, certificates of deposits)	\$1,861,401	\$ 36,920
Investments in securities, mutual funds and similar vehicles	3,704,135	144,831
Petty cash and cash on hand	1,076	-
Total	<u>\$5,566,612</u>	<u>\$181,751</u>

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Deposits: – (continued)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

The City Council has adopted an investment policy in compliance with State statutes which authorizes the City to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of U.S. banks, and mutual funds comprised of the above authorized investments. The City Council has authorized Bank One, Citizens Bank - Flint, Chemical Bank, Comerica National Bank – Detroit, Federated Investors, First Federal of Michigan – Durand, Flagstar Bank – Troy, MBIA "Class" Client Services, Merrill Lynch, Multi-Bank Securities, Inc., Fifth Third Bank, Republic Bank, Smith Barney, and Standard Federal Savings – Troy as the City's depositories.

The City's investments at June 30, 2004, consist of repurchase agreements and mutual funds as follows:

Repurchase agreements (sweep account)	<u>\$3,704,135</u>
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Component unit investments:

Component unit investments consist of mutual funds of \$144,831 which are not categorized by risk. These investments are restricted for capital outlay.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

B. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,241,850	\$ 122,617	-	\$ 1,364,467
Capital assets, being depreciated:				
Buildings	2,199,663	-	-	2,199,663
Land improvements	388,052	114,729	(7,852)	494,929
Machinery and equipment	1,456,914	107,234	(79,049)	1,485,099
Infrastructure in progress	-	100,463	-	100,463
Total, capital assets being depreciated	4,044,629	322,426	(86,901)	4,280,154
Less accumulated depreciation for:				
Buildings	(586,120)	(43,933)	-	(630,053)
Land improvements	(306,302)	(4,350)	7,852	(302,800)
Machinery and equipment	(799,731)	(122,889)	77,754	(844,866)
Total accumulated depreciation	(1,692,153)	(171,172)	85,606	(1,777,719)
Total capital assets, being depreciated net	2,352,476	151,254	(1,295)	2,502,435
Total capital assets, net	\$ 3,594,326	\$ 273,871	\$ (1,295)	\$ 3,866,902
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 101,066	\$ -	\$ -	\$ 101,066
System Infrastructure	7,718,755	112,553	-	7,831,308
Total capital assets, being depreciated	7,819,821	112,553	-	7,932,374
Less accumulated depreciation for:				
Machinery and equipment	(40,468)	(11,268)	-	(51,736)
System Infrastructure	(2,942,690)	(112,274)	-	(3,054,964)
Total accumulated depreciation	(2,983,158)	(123,542)	-	(3,106,700)
Business - type activities capital assets, net	\$ 4,836,663	\$ (10,989)	\$ - 0 -	\$ 4,825,674

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

B. Capital assets – (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

Legislative	\$ 1,925
General government	54,930
Public safety	47,061
Public works	40,803
Recreation and cultural	<u>26,453</u>

Total depreciation expense – governmental activities	<u><u>\$171,172</u></u>
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C. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Enterprise	Water Transmission Debt Service	<u><u>\$ 75,613</u></u>

Operating transfers:

	<u>Transfer In</u>				
	<u>General Fund</u>	<u>Local Streets</u>	<u>Nonmajor Governmental</u>	<u>Water</u>	<u>Total</u>
Transfer out:					
General fund	\$ -	\$ -	\$ 40,405	\$ -	\$ 40,405
Major streets	-	31,411	-	-	31,411
Nonmajor governmental funds	-	-	-	75,613	75,613
Water fund	-	-	28,675	-	28,675
Sewer fund	-	-	60,737	-	60,737
Total transfers out	<u><u>\$ -0-</u></u>	<u><u>\$ 31,411</u></u>	<u><u>\$129,817</u></u>	<u><u>\$ 75,613</u></u>	<u><u>\$236,841</u></u>

Transfers between funds were primarily for operating purposes.

D. Long-term debt

Long-term liability activity for the year ended June 30, 2004 can be summarized as follows:

	<u>General Obligation Bonds</u>	<u>Accumulated Annual and Sick Pay</u>
Debt at July 1, 2003	\$1,120,068	\$ 73,900
Principal payments made	<u>(87,514)</u>	<u>2,266</u>
Total governmental activities long-term debt	<u><u>\$1,032,554</u></u>	<u><u>\$ 76,166</u></u>

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

D. Long-term debt – (continued)

A summary of long-term liability transactions for the year ended June 30, 2004, and the composition of the June 30, 2004, long-term debt balance follows:

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Original Amount of <u>Issue</u>	Balance at June 30, <u>2003</u>	Issuances (Retire- ments) <u>During Year</u>	Balance at June 30, <u>2004</u>	Due Within One <u>Year</u>
Governmental Activities:							
1965 Genesee County Sanitary Sewer System #1 Main Interceptor Bonds	4/2004	3.75-3.80	727,947	\$ 33,540	\$ (33,540)	\$ -	\$ -
Building Authority Bonds: Series 2001	5/2021	4.25-5.65	995,000	945,000	(25,000)	920,000	25,000
Accumulated vacation and sick pay				73,900	2,266	76,166	-
				1,052,440	(56,274)	996,166	25,000
Business-type Activities:							
1998 Genesee County Water Supply System Refunding Bonds	4/2008	4.45-4.50%	\$283,615	141,528	(28,974)	112,554	28,974
				<u>\$1,193,968</u>	<u>\$ (85,248)</u>	<u>\$1,108,720</u>	<u>\$ 53,974</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 25,000	\$ 47,693	\$ 28,974	\$ 4,965
2006	25,000	46,568	28,417	3,719
2007	25,000	45,443	27,860	2,468
2008	25,000	44,318	27,303	1,229
2009	50,000	43,130	-	-
2010-2014	250,000	179,675	-	-
2015-2019	350,000	107,850	-	-
2020-2021	170,000	14,936	-	-
Total	<u>\$920,000</u>	<u>\$529,613</u>	<u>\$112,554</u>	<u>\$ 12,381</u>

Building Authority Bonds:

The City of Swartz Creek is party to a long-term lease agreement for rental of a building and parking structure with the City of Swartz Creek Building Authority (Building Authority). The Building Authority was created pursuant to the provisions of Public Act 31 for the purpose of financing and constructing City facilities.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

D. Long-term debt – (continued)

The lease stipulates that fixed annual rentals will be paid to the Authority and such rentals are pledged exclusively for payment of principal and interest on revenue bonds issued by the Authority to finance the various projects. The lease agreement also provides that after all revenue bonds are retired, the fixed annual rentals will cease, and title to all buildings and structures shall vest in the City of Swartz Creek.

The City's full faith and credit is pledged for the payment of these rentals (subject to constitutional limitations). The lease agreement is essentially a financing vehicle for the City of Swartz Creek to purchase buildings and structures. Under provisions of generally accepted accounting principles for these types of leases, the assets and related liabilities encompassed by the lease are included in the statement of net assets of the lessee (City of Swartz Creek) as if these assets were purchased and financed by the lessee. These assets and liabilities are normally measured by the lesser of fair market value of the property at the inception of lease or present value of the minimum lease payments (discounted at the lessee's incremental borrowing rate) at the beginning of the lease term. Since the minimum lease payments are the payments required to retire the debt, the assets are shown at fair market value at the inception of the lease (cost) and the related lease liabilities are the outstanding revenue bonds related to the leased assets. The fixed assets owned by the Authority and included in the City's financial statements in the statement of net assets at June 30, 2004, have an accumulated cost of \$788,137.

The Building Authority bonds are due in annual installments of \$25,000 to \$95,000 through May 5, 2021. Interest is paid semi-annually at rates ranging from 4.25% to 5.65%. The outstanding balance payable at June 30, 2004 is \$920,000.

City indebtedness:

Act 279, Public Acts of Michigan 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the assessed real and personal property in the city. As of June 30, 2004, the City of Swartz Creek had a total debt limit of \$21,630,687. According to Act 279, the General Obligation Sewer and Drain Bonds and all Enterprise Funds are specifically exempted from the computation. Principal outstanding on applicable debt at June 30, 2004 is \$920,000. Therefore, the City could incur \$20,710,687 of additional general obligation debt as of June 30, 2004 and still be in compliance with State law.

Defeased debt:

During 1998, the City defeased its 1969 Genesee County Water Supply System No. 1 Bonds by issuing the 1998 Refunding bonds. The proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old contract. Accordingly, the trust account assets and the liability for the defeased contract are not included in the general purpose financial statements. At June 30, 2004, \$112,554 of the contract is still outstanding.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

IV. Detailed notes on all funds – (continued)

E. Property taxes

Property taxes are levied based on assessed values of property located in the City. Assessed values are established annually and equalized by the state at an estimated 50% of current market value. A comparison of assessed and taxable property values for the 2003 tax levy is as follows:

	<u>Assessed Value</u>	<u>Taxable Value</u>
Real property	\$194,467,565	\$161,834,911
Personal property	21,839,302	21,839,302
Total	<u>\$216,306,867</u>	<u>\$183,674,213</u>

The City is permitted by charter to levy up to \$5.00 (5 mills) per \$1,000 of state taxable value for general governmental services. For the year ended June 30, 2004, the City levied \$4.8348 for general governmental services and \$1.75 for garbage per \$1,000 of state taxable valuation. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2004, \$.01 (.01 mill) per \$1,000 of state taxable valuation was being levied for long-term debt retirement. A levy of .4981 mills is levied on the behalf of the Senior Center of which the City is financially accountable.

V. Other information

A. Risk management and contingent liabilities

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims for the insurance provided by the Pool have not exceeded the amount of pool coverage in any of the past three fiscal years. As a participant in the pool, the City has the responsibility to promptly pay all annual premiums, promptly report all incidents, follow all loss reduction and prevention procedures established by the Pool, provide the City's annual budget and audited financial statements, and cooperate fully with the Pool and its attorneys in the investigation, litigation, and settlement of liability claims. The City obtains fleet insurance, employee dishonesty, property, and general tort coverage through the Pool. The City carries \$5,000,000 of liability coverage with a \$1,000 per claim deductible on property, computer equipment and mechanical systems.

The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

The City participates in the federally assisted Community Development Block Grant Program and COPS Programs. These programs are subject to monitoring by the granting agency. The granting agency has yet to make final approval of the expenditures charged to the grant. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

V. Other information -- (continued)

B. Federal awards

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for highway research, planning and construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended June 30, 2004, the City of Swartz Creek did not have \$500,000 of federal awards (local force revenue) applicable to force account expenditures. As a result, an audit in compliance with OMB Circular A-133 and the Single Audit Act was not required.

C. Joint venture agreement

The Swartz Creek Area Fire Board (Fire Board) has been organized as a joint venture of the City of Swartz Creek and the Township of Clayton (Township). The organization agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Board are appointed by the City and Township. The participating units provide revenue to the Fire Board on the basis of fire runs.

The City and Township shall each have an individual one half (1/2) interest in the assets of the Fire Board. As a result the City's one-half interest in the Fire Board's fixed assets as of December 31, 2003 is \$689,289 and has been recorded in the General Fixed Asset Account Group. The City and Township have also provided the Fire Board with the use of several vehicles. Title to these vehicles remains with the contributing unit of Government.

The following is a summary of selected financial information of the Fire Board:

	<u>Year Ended</u> <u>December 31, 2003</u>
Total assets	\$1,402,935
Total liabilities	12,094
Total Joint Venture Equity	1,390,841
Total revenues	253,933
Total expenditures	242,759

The City's financial statements interest in the Center's net assets as of June 30, 2004, was \$695,421 or 50%. Separate financial statements for the joint venture are available at their administrative offices.

D. Post-retirement benefits

The City provides healthcare coverage for retired employees with twenty-five (25) years of service in the MERS retirement plan. The expenditures for the post-retirement health care benefits are funded on a pay-as-you-go basis. At June 30, 2004 the City had four retired employees receiving benefits. The cost of the benefits provided during the year ended June 30, 2004 was \$15,944.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

V. Other information – (continued)

E. Defined benefit pension plan - MERS

The City of Swartz Creek participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. All employees hired prior to July 1, 1997 and all police officers are eligible to participate in the plan. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – City employees are not required to contribute to the plan. The City is required to contribute at an actuarially determined rate, which is revised annually. The City's current contribution rate is a certain percent of annual covered payroll for each category of city employee. Rates for June 30, 2004 were general employees – 0.00%, police – 2.5%, and supervisors – 4%. Member and employer contributions are "pooled" to fund a specific pension benefit for the employees of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost - For 2004, the City's annual pension cost of \$40,611 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2000 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions as of the date of the most recently completed actuarial valuation on December 31, 2003 included (1) a rate of return on the investments of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, (4) the assumption that benefits will increase 2.5% per year. The actuarial value of the City's assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions over an open period of 30 years.

**Three-Year Trend Information for
the City of Swartz Creek**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$ 9,423	100%	\$ -
June 30, 2003	25,355	100%	-
June 30, 2004	40,611	100%	-

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2004

V. Other information – (continued)

F. Defined contribution pension plan

The City has adopted by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. The plan is for all full time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The employee must be 18 years of age to participate in the plan.

The plan requires employer contributions of 6% of supervisors' wages and 5% of AFSCME employees' annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20% for each year of employment, becoming fully vested after five years.

During the year ended June 30, 2004, the City contributed \$11,387 to the plan. Employee voluntary contributions were \$12,131. Payroll costs of all employees and plan participants amounted to \$210,186 and \$1,209,195, respectively. It is the policy of the City to pay the pension costs as accrued.

G. Deferred compensation plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries. As a result the assets are not reported by the City.

H. Construction code revenues/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The activity related to construction code activity for the year ended June 30, 2004 is as follows:

Construction permit revenue	\$ 47,071
Less expenditures:	
Professional services	<u>(157,329)</u>
Expenditures over revenue	<u>\$ 110,258</u>

**Required Supplementary
Information**

**City of Swartz Creek
Required Supplementary Information
Analysis of Retirement System Funding Progress**

Actuarial Valuation Date *	Actuarial Value of Assets (a)	Accrued Actuarial Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (b - a)/c
12/31/03	\$6,503,853	\$6,934,536	\$430,683	93.7%	\$750,808	57.3%
12/31/02	6,344,717	6,789,520	444,803	93.5	702,216	63.3
12/31/01	6,448,199	6,322,161	(126,038)	102	661,850	(19.0)

* Most recent valuation completed as of opinion date.

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2004

	General Fund			Variance with Final Budget - (Unfavorable) Favorable
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 916,711	\$ 979,994	\$ 979,994	\$ -
Licenses and permits	100,050	68,105	68,104	(1)
Intergovernmental - federal	17,885	65,399	60,439	(4,960)
Intergovernmental - state	495,738	481,215	481,214	(1)
Charges for services	69,312	66,965	90,550	23,585
Fines and fees	25,300	49,140	49,139	(1)
Interest	36,500	23,207	22,855	(352)
Other	155,436	185,740	185,740	-
Total revenues	1,816,932	1,919,765	1,938,035	18,270
Expenditures				
Legislative	36,001	35,551	44,808	(9,257)
General government	531,135	542,300	535,154	7,146
Public safety	1,015,428	1,044,992	1,037,646	7,346
Department of public works	84,100	123,170	118,209	4,961
Recreation and cultural	121,899	139,638	138,407	1,231
Employee benefits	24,500	15,945	15,944	1
Total expenditures	1,813,063	1,901,596	1,890,168	11,428
Excess (deficiency) of revenues over expenditures	3,869	18,169	47,867	29,698
Other financing uses				
Operating transfers out	(26,105)	(40,405)	(40,405)	-
Total other financing uses	(26,105)	(40,405)	(40,405)	-
Net change in fund balance	(22,236)	(22,236)	7,462	29,698
Fund balance - beginning of year	1,141,859	1,141,859	1,141,859	-
Fund balance - end of year	\$ 1,119,623	\$ 1,119,623	\$ 1,149,321	\$ 29,698

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Major Street Fund
For the Year Ended June 30, 2004

	Major Street			Variance with Final Budget - (Unfavorable) Favorable
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental - state	\$ 203,000	\$ 203,000	\$ 266,983	\$ 63,983
Intergovernmental - local	58,400	58,400	53,353	(5,047)
Charges for services	-	-	8,663	8,663
Interest	22,000	22,000	9,105	(12,895)
Other	5,000	5,000	1,200	(3,800)
Total revenues	288,400	288,400	339,304	50,904
Expenditures				
Current:				
Public works:				
Occupational safety	1,000	127	274	(147)
Construction	122,900	122,900	83,258	39,642
Routine maintenance- streets	58,509	51,386	58,427	(7,041)
Routine maintenance- bridges	1,700	6,252	5,452	800
Traffic service	24,159	27,603	23,801	3,802
Snow and ice removal	33,368	33,368	26,100	7,268
Administration	15,353	15,353	13,844	1,509
Total expenditures	256,989	256,989	211,156	45,833
Excess of revenues over expenditures	31,411	31,411	128,148	96,737
Other financing uses				
Operating transfers out	(31,411)	(31,411)	(31,411)	-
Total other financing uses	(31,411)	(31,411)	(31,411)	-
Net change in fund balance	-	-	96,737	96,737
Fund balance - beginning of year	834,163	834,163	834,163	-
Fund balance - end of year	\$ 834,163	\$ 834,163	\$ 930,900	\$ 96,737

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Local Street Fund
For the Year Ended June 30, 2004

	Local Street			Variance with Final Budget - (Unfavorable) Favorable
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental - state	\$ 70,000	\$ 70,000	\$ 82,645	\$ 12,645
Interest	4,400	4,400	1,730	(2,670)
Other	-	-	14,725	14,725
Total revenues	74,400	74,400	99,100	24,700
Expenditures				
Current:				
Public works:				
Occupational safety	700	700	525	175
Construction	85,000	100,741	100,464	277
Routine maintenance- streets	45,334	61,983	62,070	(87)
Routine maintenance- bridges	22,517	3,868	631	3,237
Traffic service	7,477	2,591	2,070	521
Snow and ice removal	18,176	29,198	23,194	6,004
Administration	19,461	15,325	14,062	1,263
Total expenditures	198,665	214,406	203,016	11,390
Excess (deficiency) of revenues over expenditures	(124,265)	(140,006)	(103,916)	36,090
Other financing sources (uses):				
Operating transfers in	31,411	31,411	31,411	-
Total other financing sources	31,411	31,411	31,411	-
Net change in fund balance	(92,854)	(108,595)	(72,505)	36,090
Fund balance - beginning of year	225,137	225,137	225,137	-
Fund balance - end of year	\$ 132,283	\$ 116,542	\$ 152,632	\$ 36,090

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Garbage Fund
For the Year Ended June 30, 2004

	Garbage Collection			Variance with Final Budget - (Unfavorable) Favorable
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 311,600	\$ 316,989	\$ 321,313	\$ 4,324
Forfeits	50	21	22	1
Interest	5,500	4,418	4,379	(39)
Total revenues	317,150	321,428	325,714	4,286
Expenditures				
Current:				
Public works:				
Sanitation collection	204,246	193,001	193,220	(219)
Wood chipping	59,360	99,231	99,740	(509)
Total expenditures	263,606	292,232	292,960	(728)
Net change in fund balance	53,544	29,196	32,754	3,558
Fund balance - beginning of year	415,383	415,383	415,383	-
Fund balance - end of year	\$ 468,927	\$ 444,579	\$ 448,137	\$ 3,558

City of Swartz Creek
Notes to Required Supplementary Information
June 30, 2004

Summary of Significant Accounting Policies – Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

The budget for the General Fund, Local Streets Special Revenue Fund, and Garbage Special Revenue Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

The budget for the Major Streets Special Revenue Fund was not budgeted in accordance with generally accepted accounting policies.

The Major Streets Fund did not budget for the revenues and expenditures for road construction expended directly by the State on the City's behalf. A reconciliation of the actual expenditures reported in the Major Streets Fund Schedule of Revenues and Expenditures and Changes in Fund Balance – Budget and Actual with the Major Streets Fund in the fund financial statements is as follows:

	<u>Budget Basis</u>	<u>Adjustment</u>	<u>Fund Financial Statements</u>
Revenues	\$ 339,304	\$ 657,083	\$ 996,387
Expenditures	(211,156)	(657,083)	(868,239)
Transfers out	(31,411)	-	(31,411)
	<hr/>		
Excess of revenues over expenditures	<u>\$ 96,737</u>	<u>\$ -0-</u>	<u>\$ 96,737</u>

**Combining Fund Statements and
Fund Descriptions**

**City of Swartz Creek, Michigan
Non-Major Governmental Funds
Summary Descriptions
June 30, 2004**

Special Revenue Funds

Drug Enforcement Fund accounts for the proceeds from the sale of confiscated property seized in drug related crimes.

Special Assessment Fund accounts for sidewalk improvements special assessments.

Debt Service Funds

City Hall Fund accounts for resources accumulated for the payment of the Swartz Creek Building Authority bonds.

Water Transmission Fund accounts for resources accumulated for the payment of general obligation debt.

Sewer Interceptor Fund accounts for resources accumulated for the payment of general obligation debt.

Capital Project Funds

Capital Project Fund accounts for resources restricted for capital improvement.

Fire Capital Project Fund accounts for resources restricted for the purchase of fire department capital equipment.

City of Swartz Creek
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2004

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Drug Enforcement</u>	<u>Special Assessments</u>	<u>City Hall</u>	<u>Water Transmission</u>
Assets				
Cash and cash equivalents	\$ 5,677	\$ 12,662	\$ 10,252	\$ 41,472
Investments	-	-	-	34,141
Accounts receivable	-	9,854	-	-
Total assets	<u>\$ 5,677</u>	<u>\$ 22,516</u>	<u>\$ 10,252</u>	<u>\$ 75,613</u>
Liabilities				
Accounts payable	\$ -	\$ 55	\$ -	\$ -
Due to to other funds	-	-	-	75,613
Contractors' retention payable	-	-	-	-
Total liabilities	<u>-</u>	<u>55</u>	<u>-</u>	<u>75,613</u>
Fund Balances				
Unreserved, designated for subsequent year expenditures	-	-	-	-
Unreserved, undesignated	5,677	22,461	10,252	-
Total fund balances	<u>5,677</u>	<u>22,461</u>	<u>10,252</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 5,677</u>	<u>\$ 22,516</u>	<u>\$ 10,252</u>	<u>\$ 75,613</u>

<u>Debt Service</u>		<u>Capital Project</u>		<u>Total Non-major Governmental Funds</u>
<u>Sewer Interceptor</u>		<u>Capital Projects</u>	<u>Fire Capital Project</u>	
\$	19	\$ 24,006	\$ 80,843	\$ 174,931
	-	91,575	-	125,716
	-	-	-	9,854
<hr/>				
\$	19	\$ 115,581	\$ 80,843	\$ 310,501
<hr/>				

\$	-	\$	-	\$	55
	-		-		75,613
	-	10,000	-		10,000
<hr/>					
	-	10,000	-		85,668
<hr/>					

	-	93,031	10,750		103,781
	19	12,550	70,093		121,052
<hr/>					
	19	105,581	80,843		224,833
<hr/>					
\$	19	\$ 115,581	\$ 80,843	\$	310,501
<hr/>					

City of Swartz Creek
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2004

	Special Revenues		Debt Service	
	Drug Enforcement	Special Assessments	City Hall	Water Transmission
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ 2,303
Interest	36	-	391	657
Other	-	1,988	-	-
Total revenues	36	1,988	391	2,960
Expenditures				
Public safety	3,017	-	-	-
Capital outlay:				
City hall	-	-	-	-
Other	-	-	-	-
Debt service:				
Principal	-	-	25,000	28,974
Interest	-	-	49,050	6,154
Total expenditures	3,017	-	74,050	35,128
Excess (deficiency) of revenues over expenditures	(2,981)	1,988	(73,659)	(32,168)
Other financing sources (uses)				
Operating transfers in (out)	4,000	-	73,755	(75,613)
Net change in fund balances	1,019	1,988	96	(107,781)
Fund balance - beginning of year	4,658	20,473	10,156	107,781
Fund balance - end of year	\$ 5,677	\$ 22,461	\$ 10,252	\$ - 0 -

Debt Service		Capital Projects		Total			
Sewer Interceptor		Capital Projects	Fire Capital Project	Non-major Governmental Funds			
\$	-	\$	-	\$	2,303		
	84		542		4,718		
	-		-		1,988		
	84	3,008	542		9,009		
	-	-	-		3,017		
	-	51,043	-		51,043		
	-	150,187	-		150,187		
	33,540	-	-		87,514		
	794	-	-		55,998		
	34,334	201,230	-		347,759		
	(34,250)	(198,222)	542		(338,750)		
	32,062	-	20,000		54,204		
	(2,188)	(198,222)	20,542		(284,546)		
	2,207	303,803	60,301		509,379		
\$	19	\$	105,581	\$	80,843	\$	224,833

City of Swartz Creek
Combining Balance Sheet
Agency Funds
June 30, 2004

	<u>Trust & Agency</u>	<u>Current Tax Collection</u>	<u>Winter Tax</u>
Assets			
Cash and cash equivalents	\$ 33,217	\$ 5,529	\$ 1,293
Delinquent taxes receivable	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 33,217	\$ 5,529	\$ 1,293
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Accrued liabilities	\$ -	\$ -	\$ -
Due to other governmental units	-	5,529	1,293
Deposits payable	33,217	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	\$ 33,217	\$ 5,529	\$ 1,293
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

<u>Tax in Lieu of Mari-Dan</u>	<u>Delinquent Personal Property Tax</u>	<u>Payroll Fund</u>	<u>Totals</u>
\$ 23,056	\$ -	\$ 71,333	\$ 134,428
-	259,348	-	259,348
\$ 23,056	\$ 259,348	\$ 71,333	\$ 393,776
\$ -	\$ -	\$ 69,672	\$ 69,672
23,056	259,348	1,661	290,887
-	-	-	33,217
\$ 23,056	\$ 259,348	\$ 71,333	\$ 393,776

September 22, 2004

To the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the financial statements of City of Swartz Creek (the City) for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of City of Swartz Creek. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Swartz Creek are described in Note 1 to the financial statements. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

During 2004, the financial statements were revised to conform to new financial statement format and disclosure requirements adopted by the Governmental Accounting Standards Board. The footnotes detail the changes in the accounting policies required under the new reporting standard.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The assumptions used in the actuarial valuation of the defined benefit pension plan, and the useful lives and depreciation expense for capital assets, and the estimated historical costs of capital assets used in governmental activities are significant estimates that affect the financial statements.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Adjustments were made to record street improvements expended directly by the State on behalf of the City, correct accruals at year end, and record depreciation expense.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

The only significant difficulty encountered during the course of the audit was the conversions of the reporting formats and financial records to the new financial statement format required by GASB 34. We appreciated the assistance provided by the office of the City Clerk, City Treasurer, and City Manager in the completion of the audit on a timely basis.

Internal Controls

In planning and performing our audit of the financial statements of City of Swartz Creek for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect City of Swartz Creek's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions:

Lack of Segregation of Duties - Bank Accounts and General Ledger Duties

Duties are properly segregated when responsibilities are arranged such that the work of one employee or City official is reviewed by another and no one employee has control over both the safekeeping of an asset and the financial records for the same asset. As duties are currently arranged in the office, both the Treasurer and City Clerk have signatory control over bank accounts and access to the general ledger. The Treasurer has control over both the tax collection bank account and has authority to make changes in the general ledger. The Clerk has supervisory control over the general ledger and is also the signer on the City's bank accounts. Under these circumstances, the possibility of a error being made in the accounting records and not being discovered on a timely basis exists. While the bank reconciliation prepared by the Treasurer is reviewed by the City Clerk, reconciliations prepared by the City Clerk are not reviewed by another official.

The majority of local units segregate the recordkeeping of cash from responsibility for the general ledger by giving the Treasurer all cash signatory, investing, and wire transfer duties, and giving the Clerk all general ledger duties. By not allowing any overlap of those duties, you mitigate the potential of errors occurring and not being discovered. This segregation of duties is consistent with the statutory duties established under State law and City charter.

This is the ideal and recommended solution, however at times such a segregation of duties may not be feasible due to the size of City's staff. In that case we would suggest at a minimum, that the Treasurer and the Clerk each be responsible to review the bank reconciliations (including detailed review and tracing of the cancelled checks and wire transfers) prepared by the other official. This would allow a supervisory review of the appropriateness of the banking transactions that could be instituted by each official. This comment was also issued in connection with the audit for the year ended June 30, 2003.

Lack of Segregation of Duties – Water and Sewer Billings

The Water and Sewer Billings Clerk is responsible for sewer and water billings and maintenance of the accounts receivable balances for each City water and sewer customer. As part of her duties the Clerk has the authority to adjust individual customer receivable records without supervisory review and approval of the adjustments or credits. The same Clerk also works the front desk when other staff are unavailable or when customer volume is high. The clerk is therefore accepting cash and check payments from citizens that could include payments on water and sewer bills. This additional duty provides the Clerk with access to both the cash payments received and the records pertaining to that cash receipt (the accounts receivable subsidiary records).

This mixture of duties would provide the Clerk with the ability to misappropriate cash receipts on water and sewer bills and then manually adjust the receivable records so that the receivable is properly credited as if a cash payment was received. Neither the City nor the customer would know that the cash was misappropriated as all financial records would indicate that proper payment was made.

This comment was also issued during the 2003 audit. Ideally, we would recommend that the Water and Sewer Billings Clerk not be assigned duties that could result in her accepting payments for water and sewer bills. Other City staff should be utilized at all times to accept citizen's payments. City management is aware of the risk of the water and sewer clerk collecting customer payments and is only scheduling the water and sewer clerk when other staff are not available.

We wish to make it absolutely clear that we are not suggesting that the Treasurer, City Clerk, or the Water and Sewer Billings Clerk are making errors of any nature. During the course of our audit, we found the financial records to be both complete and accurate. What we are saying is that due to the lack of segregation of duties, there is an inherent limitation in the City's system of internal accounting control, and we are required to disclose this to you.

Accounting for Miscellaneous Receivables

The City bills a number of individuals and businesses for various services provided other than water and sewer. The City does not currently have a system in place to timely bill such services and monitor the collection of the amounts owed the city. Paper copies of billings are maintained as support, but no comprehensive schedule of outstanding amounts is maintained, the receivables are not recorded on the general ledger, and no staff is monitoring the receivables and timely pursuing collection of the amounts owed. Given the lack of monitoring of the balance owed, it would be possible for City staff to divert cash payments made on these receivables. No evidence of such misappropriation was noted during the audit. Also, without adequate monitoring and timely follow up of delinquent, it is possible that amounts owed to the City may become uncollectible as they get old.

To the City Council
City of Swartz Creek
September 22, 2004
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We would suggest that a subsidiary listing be maintained of all the miscellaneous receivables and that the receivables are recorded on the accounting records when billed. The subsidiary listing of receivables should be maintained by staff not responsible for the collection of payments, and the subsidiary listing should be reconciled to the general ledger each month. A staff person other than one who collects customer payments should be assigned the responsibility of maintaining the receivable listing and pursuing collection. Monthly statements should be sent to all parties detailing the amounts owed to ensure that City records are in agreement with the owing parties.

City management is currently reviewing software packages for miscellaneous billings that will address the above issues.

Accounting for Delinquent Personal Property Tax

The City does not have a procedure in place to pursue and collect delinquent personal property taxes. To ensure that all taxes due the City are received, we would recommend that the City establish procedures to track and pursue collection of delinquent personal property taxes.

Payout of Property Tax Collections

State law requires property tax collections be distributed within ten days of their receipt. The City did not consistently meet that payout schedule during the year audited.

Of the reportable conditions described above, we believe both instances of lack of segregation of duties and the accounting for miscellaneous receivables to be material weaknesses.

This information is intended solely for the use of the City Council and management of City of Swartz Creek and should not be used for any other purpose. We appreciate the opportunity to work with the City and are willing and able to assist the City in the implementation of any of the above recommendations.


Certified Public Accountants
Flint Office